

NOTICE OF AMENDMENT

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

April 28, 2016

Mr. Keith Seilhan
Senior Vice President – Gulf of Mexico
Stone Energy Corporation
625 East Kaliste Saloom Road
Lafayette, LA 70508

CPF 4-2016-7002M

Dear Mr. Seilhan:

On February 9-13, 2015, representatives of the Pipeline and Hazardous Materials Safety Administration (PHMSA) pursuant to Chapter 601 of 49 United States Code inspected the Stone Energy Corporation (Stone) procedures and records for Operation and Maintenance (O&M) Plan and conducted field inspection of offshore and onshore pipeline and facilities located in Lafayette, LA. Later, it was decided to conduct an additional O&M review. Stone submitted the O&M manual on July 20, 2015, and it was reviewed in the Southwest Region Office in Houston.

On the basis of the inspection, PHMSA has identified the apparent inadequacies found within Stone's plans or procedures, as described below:

1. §195.402 Procedural manual for operations, maintenance, and emergencies.

(a) General. Each operator shall prepare and follow for each pipeline system a manual of written procedures for conducting normal operations and maintenance activities and handling abnormal operations and emergencies. This manual shall be reviewed at intervals not exceeding 15 months, but at least once each calendar year, and appropriate changes made as necessary to insure that the manual is effective. This manual shall be prepared before initial operations of a pipeline commence, and appropriate parts shall be kept at locations where operations and maintenance activities are conducted.

Based on review of the Stone Energy Operations, Maintenance and Emergency Manual and

findings listed below, it appears that Stone has not prepared and reviewed their procedures for conducting normal operations and maintenance activities and handling abnormal operations and emergencies effectively. Throughout Stone's Operations, Maintenance and Emergency Manual, the procedures replicated and paraphrased the regulations and reference the regulations instead of their own procedures. In addition, the procedures are too general to establish specific processes on how to perform the tasks. Stone's procedures must be amended to be more specific to the Stone Energy Pipeline system providing adequate details, not paraphrasing the regulations for conducting normal operations and maintenance activities, and handle the abnormal operations and emergencies.

The following sections of the Stone Energy Operations, Maintenance and Emergency Manual need to be amended:

1. Section 1 Introduction, must be amended. Sub Section 1.6 indicates Integrity Management Program - 49 CFR Subpart O.
2. Section 1.11 Definitions does not list all definitions used throughout the Operation and Maintenance manual. This section must be amended to meet the requirement of § 195.2.
3. Sections 1.8 Company Training Program, 1.10 Operating Personnel and Section 19.1 Training procedures to meet the requirements of § 195.403 Emergency response training.
4. Section 1.12 Communications procedure to meet requirements of § 195.408 Communications.
5. Section 9.1 Maximum Operating Pressure/General procedure to meet requirements of §195.406 Maximum operating pressure.
6. Section 9.4 Pressure Limiting Device Inspections procedure to meet the requirements of § 195.428 Overpressure safety devices and overflow protection systems.
7. Section 10.1 Internal Corrosion procedures to meet the requirements of §195.579: What must I do to mitigate internal corrosion?
8. Section 10.2 External Corrosion procedure to meet the requirements of § 195.559: What coating material may I use for external corrosion control?
9. Section 10.2 External Corrosion Control procedure to meet the requirements of § 195.569: Do I have to examine exposed portions of buried pipelines?
10. Section 10.5 Cathodic Protection procedures to meet the requirements of §195.573(a)(2) Identify not more than 2 years after cathodic protection is installed, the circumstances in which a close-interval survey or comparable technology is practicable and necessary to accomplish the objectives of paragraph 10.1.1.3 of NACE SP 0169 (incorporated by reference, see § 195.3).
11. Section 10.5 Cathodic Protection procedures to meet the requirements of §195.573(b)(1) Determine the areas of active corrosion by electrical survey, or where an electrical survey is impractical, by other means that include review and analysis of leak repair and inspection records, corrosion monitoring records, exposed pipe inspection records, and the pipeline environment.

12. Section 10.6 Rectifier and Interference Bond Inspection procedures to meet the requirements of §195.575: Which facilities must I electrically isolate and what inspections, tests, and safeguards are required?
13. Section 10.7 External Corrosion Control-Monitoring and Maintenance of Test Leads procedure to meet the requirements of § 195.567: Which pipelines must have test leads and what must I do to install and maintain the leads?
14. Section 10.8 Atmospheric Corrosion and 10.10 Remedial Action for Atmospheric Corrosion procedures to meet the requirements of § 195.581: Which pipelines must I protect against atmospheric corrosion and what coating material may I use?
15. Section 10.8 Atmospheric Corrosion procedures to meet the requirements of § 195.583(b) During inspections you must give particular attention to pipe at soil-to-air interfaces, under thermal insulation, under disbonded coatings, at pipe supports, in splash zones, at deck penetrations, and in spans over water.
16. Section 10.9: Remedial Measures Corrosion procedure to meet the requirements of § 195.585: What must I do to correct corroded pipe?
17. Section 10.10 Remedial Action for Atmospheric Corrosion procedures to meet the requirements of § 195.583(c) If you find atmospheric corrosion during an inspection, you must provide protection against the corrosion as required by § 195.581.
18. Section 12.2: Ignition Prevention For Floating Roofs procedure to meet §195.405 Protection against ignitions and safe access/egress involving floating roofs.
19. Section 12.3 Firefighting Equipment procedure to meet the requirements of § 195.430 Firefighting equipment.
20. Section 12.4 Smoking & Open Flames to meet the requirements of § 195.438 Smoking or open flames.
21. Section 13.9 Reviewing Operation Response procedures to meet the requirements of §195.402(d)(5) Periodically reviewing the response of operator personnel to determine the effectiveness of the procedures controlling abnormal operation and taking corrective action where deficiencies are found.
22. Section 13.0 Abnormal Operations procedures to meet the requirements of §195.402(d)(2) Checking variations from normal operation after abnormal operation has ended at sufficient critical locations in the system to determine continued integrity and safe operation.
23. Section 16.4 Welding Weather procedure to meet the requirements of § 195.224: Welding: Weather.
24. Section 16.8 Non-Destructive Testing procedure to meet the requirements of § 195.234 Welds: Nondestructive testing.
25. Section 17 Hydrostatic Testing procedures to meet requirements of Subpart E Pressure Testing.
26. Section 18.3 Pipeline Markers procedure to meet the requirements of § 195.410 Line markers.
27. Section 16.5: Welding – Arc Burns procedure states “arc burn repair procedures will be generated by a third party contractor (and reviewed by the Area / Field Foreman or designee) prior to the procedure being conducted”. In addition, this procedure lacked detail regarding removal of arc burns, check for complete removal and acceptance/rejection of repair.

Stone's procedure 16.5 must be amended to be more specific to the Stone Energy pipeline system with adequate details and with specific reference to applicable sections of the liquid pipeline Operations and Maintenance & Emergency Manual and to meet the requirements of § 195.226 .

28. Section 7.1: Pipeline Patrol procedure reference Section 15: repairs for the remedial measures. Upon review of Section 15, the PHMSA inspector learned that it did not establish how remedial measures will be implemented, when deficiencies are encountered during right-of-way inspections. Stone needs to amend their procedure to consider remedial measures to meet the requirements of 195.412(a).

29. Section 7.3 procedure requires the inspection intervals once every 5 years or based on identified risk. However, the same procedure, timeline for next inspection states "once a depth of burial survey has been completed (Stone Energy or Regulatory Mandated inspection), the next inspection will be due no later than five (5) years from the date of the previously completed inspection. Stone's procedure must be amended to include lowering the frequency based on risk identified.

Also, the same procedure references 33 CFR Part 64 to mark the locations of exposed pipelines, which is too vague to meet the requirements. Stone must amend their procedure to meet the requirements of 195.413.

30. Section 11.1 Valve Inspections procedure does not meet the requirements of 195.420. The procedure fails to identify the valves necessary for the safe operation of the pipeline system valves and is too vague on how to check the valve for proper operating condition. Stone must amend their procedure to meet the requirements of 195.420.

31. Section 15: Repairs is inadequate and does not address how repairs are actually made. The procedure fails to address how the regulatory requirements of Part 195, subpart D for construction, inspection, welding, welder qualification, and nondestructive examination or Subpart E for pressure testing when making repairs, will be met. Stone's procedure does not include repair methods, repair requirements, welding, pressure testing, construction methods, and inspections associated with repair activities in adequate detail to meet the requirements of § 195.422(a) & (b).

During the inspection, Stone representatives verbally stated, in the event there is an accident or safety related condition, Stone will isolate/shutdown the pipeline immediately. Stone will then prepare a repair plan based on the specific accident or safety related condition that meets the requirements in 49 CFR 195. When a third party contractor is used, Stone will review the contractor repair procedures and use only if the procedures are approved by Stone. It should be noted that this statement was added during the PHMSA inspection.

As stated earlier in this report, Stone's procedures replicate and paraphrase the regulations and reference the entire regulations instead of their own specific procedures. Stone's procedures must be amended to be more specific to the Stone Energy pipeline system with adequate details and with specific reference to applicable sections of liquid pipeline Operations and Maintenance & Emergency Manual.

32. Section 10.2 External Corrosion procedure does not have process established to require the inspection and repair of pipeline or vessels enclosed by insulation or other protective coating subject to moisture penetration and retention.

Stone must amend their procedures to address the requirement of inspection and repair of all external coatings being used specific to the Stone Energy pipeline system with adequate details

and with specific reference to applicable sections of liquid pipeline Operations and Maintenance & Emergency Manual and to meet the requirements of § 195.561.

33. Section 10.3 and Section 10.5 procedures, Monitoring Sections does not meet the requirement of 195.573(a)(1) which states “Conduct tests on the protected pipeline at least once each calendar year”. It does not include with intervals not exceeding 15 months. Stone must amend both procedures to state that cathodic protection must be tested at least once each calendar year, with intervals not exceeding 15 months to meet the requirements of 195.573(a)(1).
34. Section 10.6 Rectifier and Interference Bond Inspections procedure fails to explain the rectifier inspection in detail and how to take remedial action when deficiencies are encountered. Stone must amend their procedure to meet the requirements of 195.573(c).
35. Stone’s Operation, Maintenance and Emergency Manual does not address or establish a procedure to alleviate interference currents. Stone must amend their Manual to meet the requirements of 195.577(a) and (b).
36. Section 4.8 Corrosion Control Records procedure states “Stone Energy shall maintain a record of each test, survey, or inspection required (in regards to corrosion control) in sufficient detail to demonstrate the adequacy of corrosion control measures or that a corrosive condition does not exist”. It also indicates, Form 20.6 will be used for documentation. Upon review of the Form 20.6, the PHMSA inspector learned this form is used for the Annual Cathodic Protection Survey. The procedure does not mention how other records related to this subpart will be documented or recorded. Stone must amend their procedure to allow a method of documenting or recording such records to meet the requirements of § 195.589 (c).
37. At the time of the inspection, Stone Energy failed to have a written procedure to comply with the requirements of §195.402 (c)(13).

Stone provided a copy of their written procedure, Introduction, Section 1.10: Operating Personnel to satisfy compliance with the requirements of 195.402 (c)(13). The review of the procedure revealed the operator does not have a process in place for periodically reviewing the work done by operator personnel to determine the effectiveness of the procedures used in normal operation and maintenance, and taking corrective action where deficiencies are found. Stone’s Manual must be amended to include adequate details on how the company will perform periodic reviews of work done by their employees to meet the requirements of 195.402 (c)(13).
38. Section 19.14: Post Accident Procedures, failed to require a post-accident review of employee activities to determine whether the procedures were effective in each emergency and taking corrective action where deficiencies are found.

Stone needs to amend their procedures to include a process to achieve compliance with the requirements of §195.402 (e) (9).
39. Section 14.1 Safety Related Condition fails to state a report is required by §195.55 (a)(1) and (b)(3) for any repair or replacement in accordance with applicable safety standards before the deadline for filing the safety-related condition report except for localized corrosion pitting on an effectively coated and cathodically protected pipeline.

Response to this Notice

This Notice is provided pursuant to 49 U.S.C. § 60108(a) and 49 C.F.R. § 190.237. Enclosed as part of this Notice is a document entitled *Response Options for Pipeline Operators in Compliance Proceedings*. Please refer to this document and note the response options. Be advised that all material you submit in response to this enforcement action is subject to being made publicly available. If you believe that any portion of your responsive material qualifies for confidential treatment under 5 U.S.C. 552(b), along with the complete original document you must provide a second copy of the document with the portions you believe qualify for confidential treatment redacted and an explanation of why you believe the redacted information qualifies for confidential treatment under 5 U.S.C. 552(b). If you do not respond within 30 days of receipt of this Notice, this constitutes a waiver of your right to contest the allegations in this Notice and authorizes the Associate Administrator for Pipeline Safety to find facts as alleged in this Notice without further notice to you and to issue a Final Order.

If, after opportunity for a hearing, your plans or procedures are found inadequate as alleged in this Notice, you may be ordered to amend your plans or procedures to correct the inadequacies (49 C.F.R. § 190.237). If you are not contesting this Notice, we propose that you submit your amended procedures to my office within 45 days of receipt of this Notice. This period may be extended by written request for good cause. Once the inadequacies identified herein have been addressed in your amended procedures, this enforcement action will be closed.

It is requested (not mandated) that Stone Energy Corporation maintain documentation of the safety improvement costs associated with fulfilling this Notice of Amendment (preparation/revision of plans, procedures) and submit the total to R. M. Seeley, Director, Southwest Region, Pipeline and Hazardous Materials Safety Administration. In correspondence concerning this matter, please refer to **CPF 4-2016-7002M** and, for each document you submit, please provide a copy in electronic format whenever possible.

Sincerely,

R. M. Seeley
Director, Southwest Region
Pipeline and Hazardous Materials Safety Administration

Enclosure: *Response Options for Pipeline Operators in Compliance Proceedings*